

The Macroeconomics of Adjustment in Sub-Saharan African Countries

Results and Lessons

Ishrat Husain

Adjustment is necessary even if it is bound to work slowly. But for it to work at all depends on the strong commitment by leaders of Sub-Saharan countries to sustain reform policies in the face of adverse and harsh external circumstances and domestic political pressures.



Summary findings

Despite the satisfactory performance of several intensely adjusting Sub-Saharan African countries — and successful results in agriculture and food production — the overall results of adjustment achieved in Africa have so far been modest. Adjustment has not yet succeeded in raising the rate of growth enough to make major inroads in reducing poverty.

Sub-Saharan Africa's economic recovery is still fragile. Currency depreciation and inflationary pressures have not yet been fully subdued in several countries because of persistence of underlying expansionary fiscal and monetary policies. Many Sub-Saharan countries still rely exclusively on external grants and concessional financing to close their fiscal gaps. Per capita consumption remains stagnant; and private investment has not yet revived. Unemployment rates are still high, particularly in urban areas, and poverty is on the rise. When there is civil strife, adjustment, of course, has not worked.

There is a general consensus that consistent and unfettered implementation of adjustment policies and attainment of macroeconomic stability do improve the outlook for growth in Africa. But the record of implementation is mixed and uneven. Adjustment is necessary even if it is bound to work slowly. But for it to work at all depends on the strong commitment by leaders of these countries to sustain reform policies in

the face of adverse and harsh external circumstances and domestic political pressures.

What is less clear, and thus invokes controversy, is the speed, timing, and sequencing of adjustment programs. As each reform has a different impact on the various segments of the population — creating winners and losers — mediating among these conflicting claims is highly political. There are no technocratic solutions or quick fixes to provide satisfactory solutions. No amount of external assistance can help in this process. Consensus-building, open communication, consultations, and debate — and reaching compromises — will bring about the durable results. But in practice, this path has proved difficult.

It is equally clear that adjustment policies, even when they are put in place after reaching internal consensus, will not lift African countries out of poverty. The agenda of policy reforms should be considered as part of the broader long-term development strategy of each country. This strategy should aim not only at changes in policies, but also at improving investment in human resources and physical infrastructure, accelerating opportunities for private sector development, enhancing the quality of governance, strengthening institutional capacity, and — most important — maintaining national solidarity and social cohesion.

This paper — a product of the Office of the Chief Economist, Africa Regional Office — is based on a recent study on adjustment in Africa. Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Joy Schwartz, room J5-255, extension 32250 (22 pages). October 1994.

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After a prolonged period of economic stagnation, many African countries committed themselves in the mid-1980s to a series of adjustment policies aimed at restoring economic growth. Now, almost a decade into adjustment, Africa's economic climate still remains unclear and uncertain, with the overall results modest relative to original expectations.

Although some countries have enjoyed a resurgence of growth, the economic performance of the region as a whole has been disappointing, raising troubling questions about the extent and efficacy of policy reform efforts. Previous studies of structural adjustment have focused on cross-sectional and aggregate performance of a group of countries that have taken adjustment loans from the World Bank and the IMF. Few empirical studies have actually measured the extent to which policies have, in fact, been implemented by the countries themselves and then related changes in policies to subsequent economic performance.

To fill this gap, a recent World Bank study² examined in depth how much adjustment has taken place and how successful it has been in African countries. This study--Africa Adjustment Study (AAS)--compares the policies and performance of 29 Sub-Saharan African countries during two periods: from 1981 to 1986, when most African countries were in economic crisis, and from 1987 to 1991, when these countries adopted structural adjustment programs. This study was supplemented by case studies of seven countries³ Burundi, Cote d'Ivoire, Ghana, Kenya, Nigeria, Senegal, and Tanzania--that undertook adjustment programs during the mid-1980s. The period covered by these case studies ends, for most countries, in 1991. The countries were chosen to capture a variety of characteristics and initial conditions. In all seven countries, adjustment programs addressed such distortions as an overvalued exchange rate, high current account and fiscal deficits, low factor mobility, restrictions on domestic and foreign trade, distorted pricing for tradables, and inefficient public services.

¹The author is the Chief Economist, Africa Region, The World Bank. The views expressed in this paper are personal and should not be attributed to the World Bank, its Management or the Board of Directors.

²Adjustment in Africa: Reform, Results and the Road Ahead, World Bank, Oxford University Press, 1994.

³Husain, I. and Faruquee, R., 1994, Lessons from Country Case Studies, World Bank Regional and Sectoral Studies.

The AAS asks the question: whether it is the failure of adjustment policies that has resulted in such disappointing results for Africa or is it the failure to adjust i.e. the countries did not implement these policies consistently and vigorously.

External vs Internal Factors

Before answering this question, the study revisited the issue of the main contributory factor for Africa's economic decline. If the main cause of the decline is external shocks, then adjustment policies cannot be an effective answer to the problem. But if domestic policy weaknesses are the main culprit, then altering these policies should make a difference.

The debate on the relative weight of the factors explaining the poor performance of Sub-Saharan Africa has been lingering for the past fifteen years. The Berg report of 1981 argued that the domestic policy failures of African governments were mainly responsible for the continent's continuing decline, while the ECA and many other observers blamed the hostile external environment as a significant source of Africa's malaise.

The AAS acknowledges that the terms of trade decline --from the early 1970s to the mid 1980s--had a negative influence on the economic growth of the African countries but accounted for a relatively small part (10 percent) of Africa's decline in the growth rate. A similar result was derived by El-Farhan,⁴ who applied an OLS regression model to cross sectional data on 32 SSA countries over 1960-86 in order to test for various influences on GDP growth in Sub-Saharan Africa. According to her study, changes in the commodity terms of trade had the expected positive sign but were not found to be significant. The strongest explanatory variable was the growth of export volume. An analysis of SSA export performance by Svedberg⁵ found term of trade movements (up or down) to be the main influence on export earnings only in 11 out of 33 countries in 1970-85. Pickett⁶ assessed the effects on GDP growth of long-run terms of trade for a sample of 20 SSA low income countries over 1966-86. In all the 20 countries he examined, the income effects of the terms of trade were negative, but in most cases the effect was quite modest.

⁴El-Farhan, H., *Analysis of the Growth Performance of Sub-Saharan Africa Countries*, London: SOAS (Ph. D. Thesis Unpublished).

⁵Svedberg, P., 1991, "The Export Performance of Sub-Saharan Africa", in J.H. Frimpong-Ansah, et al., *Trade and Development in Sub-Saharan Africa*, Manchester V. Press, Manchester.

⁶Pickett, J., 1990, "The Low-Income Economies of Sub-Saharan Africa: Problems and Prospects", in J. Pickett and H. Singer (eds.), *Towards Economic Recovery in Sub-Saharan Africa*: London: Routledge.

The income loss from the decline in the terms of trade for the region (excluding Nigeria) was around 10 percent of GDP between 1965-73 and 1987-90. Though large, the loss was spread over 20 years. Adding Nigeria to the picture reduces the 20 year loss to just 3.6 percent of GDP or 0.2 percent a year. The reason for such an insignificant contribution of terms of trade losses can be found in the composition of exports.

In terms of the composition of Africa's exports, there are three major commodity groups that account for bulk of the export--oil and gas (40-45%), metals and minerals (20-25%) and agriculture (20-25%). At this disaggregated level, the impact of the terms of trade has been uneven and not necessarily in the same direction for oil exporters, mineral exporters and agriculture exporters. Between 1970 and 1990, oil exporters enjoyed improvements of more than 100 percent while mineral exporters were hardest hit, their terms of trade fell by around 50 percent. Agriculture exports suffered a decline of 34 percent while the more diversified exports 30 percent. Thus, at an aggregate level, the picture for the whole of Sub-Saharan Africa does not look as dismal as at the individual country level because the positive movement in one commodity group neutralizes the negative movements of the other groups.

At a country level, the situation is more differentiated. Several countries that derive their export revenues from coffee, cocoa and copper, whose prices were severely depressed over the decade of the 1980s and real prices had, in fact, dropped to the historically low levels in the second half of the 1980s, were indeed badly hurt.

The AAS, therefore, concluded that poor economic policies played a bigger role in explaining economic decline except a few cases. The task of adjustment was, however, made more difficult by larger terms of trade decline recorded in the period 1986-91. The outcomes would have been much more positive if the commodity prices had not fallen so precipitously, debt burden had been reduced, and the Southern Africa had not faced a terrible drought.

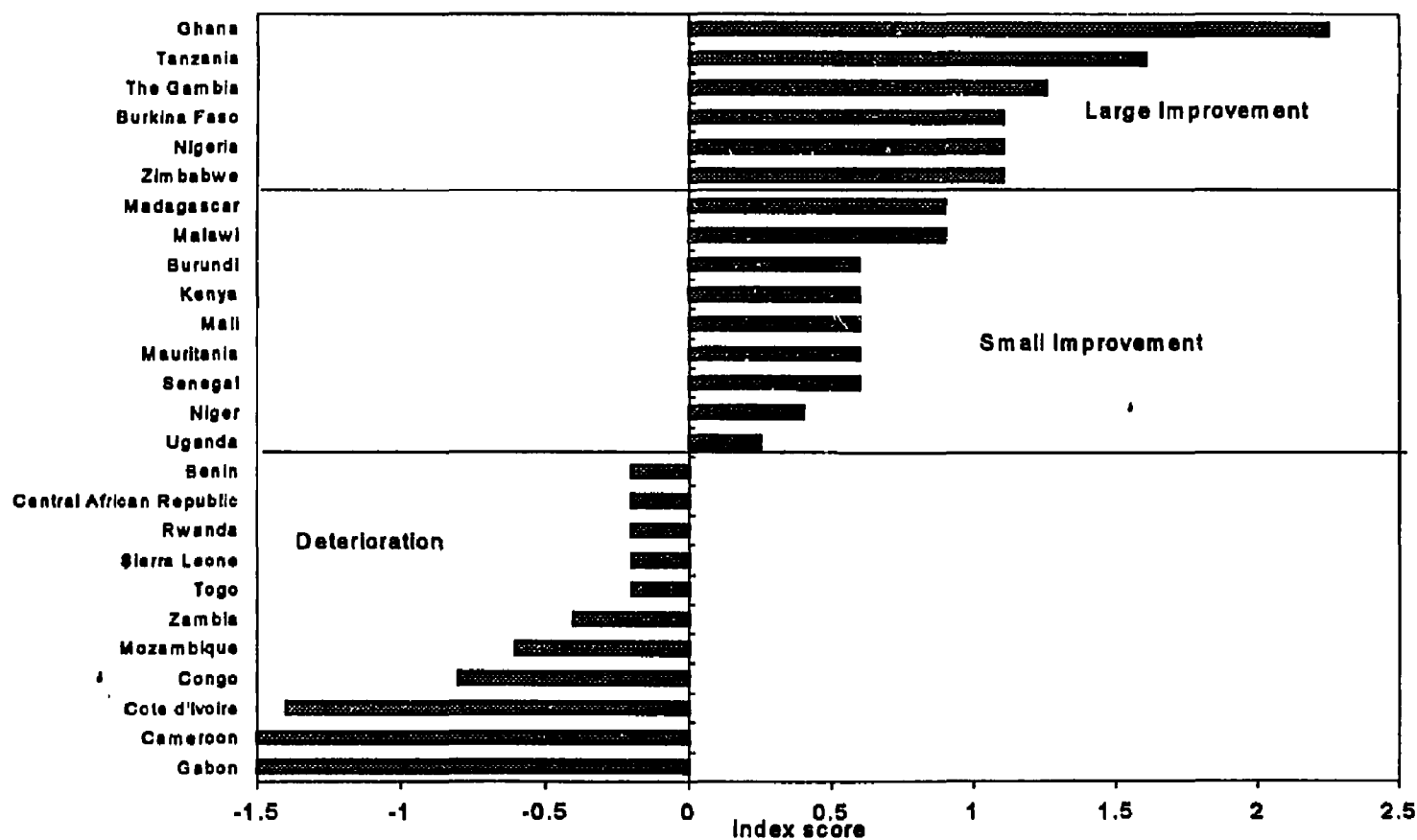
The Extent of Policy Reforms

The major contribution of the AAS was a careful measurement of the extent to which six sets of policy reforms--macroeconomic, trade, agriculture, public enterprise, financial sector and public sector management--were implemented in the 29 countries in the period 1986-91. The study⁷ found:

⁷The first part of this section is drawn from Jones, C. and Kiguel M., 1994, "Africa's Quest for Prosperity: Has Adjustment Helped", and the second part is based on Husain, I., 1994 "Results of Adjustment in Africa: Selected Cases", in Finance and Development.

Chart I. More than half of adjusting countries improved their macroeconomic policies

Change in Macroeconomic Policies, 1981-86 to 1987-91

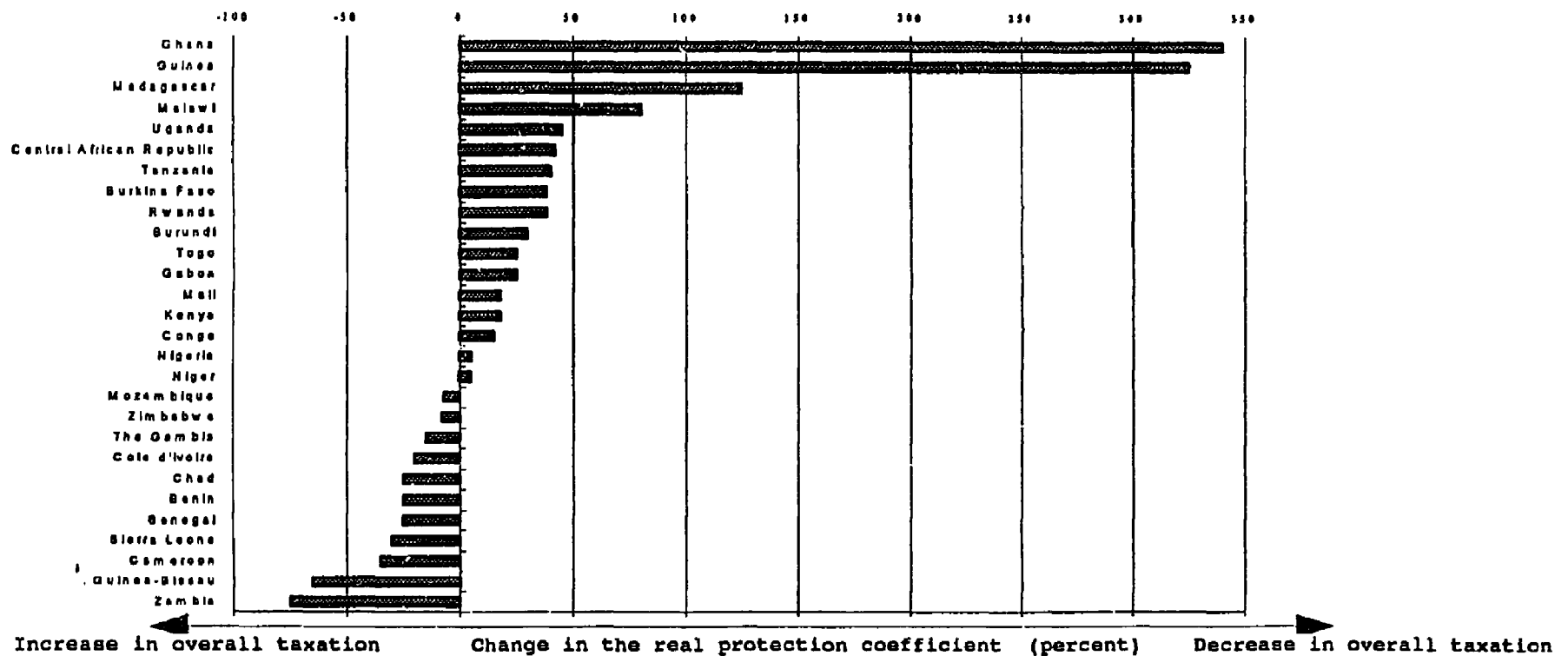


- Constructing an index of macroeconomic policy reforms for each country by using changes in inflation, exchange rate and fiscal policy in the pre-adjustment and adjustment period, it was found that only six countries had recorded a large improvement in macroeconomics policies, nine a small improvement and eleven a deterioration (Chart I). Taken as a whole, countries in the CFA zone were the ones that had seen a deterioration in their policies.
- Many countries have substantially reduced the number of imports subject to non-tariff barriers and have begun to rationalize the tariff structure to encourage greater efficiency. Most of the countries with a flexible exchange rate have moved to more automatic systems of granting foreign exchange licenses.
- Two-thirds of the adjusting countries are taxing their farmers less (Chart II). Despite huge declines in real export prices, policy changes increased real producer prices for agricultural exporters in 10 countries. Of the 15 governments that had major restrictions on the private purchase, distribution and sale of major food crops before adjustment, 13 have withdrawn from marketing almost completely.
- Less progress has been made in public sector reform. The pace of privatization has been slow, with African governments selling off only a small portion of their assets. Financial flows to public enterprises are still high, and overall performance has not improved. One encouraging trend, however, is that governments have stopped expanding their public enterprise sectors.
- In the financial sector, there has been progress in rationalizing real interest rates and in increasing private sector ownership in commercial banks. Efforts to restructure and recapitalize banks have been less successful, however, as banks have continued to lend to unhealthy public enterprises, undermining the sustainability of the restructuring efforts.
- Civil service reform, which was the main plank of public sector management reforms, had not made much headway in improving the efficiency and productivity of civil service even where retrenchments and reduction in the size of the force had been carried out in only a few countries.

To sum up, progress has been satisfactory in the areas of macroeconomic reforms, trade policy and agriculture pricing and marketing. Macroeconomic reforms have spurred external competitiveness while keeping inflation low. Trade reforms have increased access to the imports needed for growth. And the reduced taxation of agriculture has helped the poor while encouraging production and exports.

Chart II. Seventeen Adjusting countries reduced overall taxation of agriculture

Change in Overall Taxation of the Agricultural Sector, 1981-83 to 1989-91



For public enterprises, financial sector and public sector management, there have been few policy changes. African governments have sold off or liquidated only a small share of their assets. Financial flows to public enterprises are still high but there has not been any sustainable improvement in their efficiency. Financial sector is still heavily burdened by public sector demands for credit crowding out private sector. Civil service efficiency and productivity has not shown any perceptible improvement.

The study found that despite these efforts to improve the macroeconomic environment, open up markets and strengthen the incentives for production and exports, most African countries still lack policies that are sound by international standards. Even Africa's best performers have worse macroeconomic policies than those followed on average by the economies in Asia. The credibility of these policies has not yet been established, the ownership and political commitment are just beginning to emerge and fiscal stability is still fragile.

Results of Policy Reforms

The results of the study show that those countries that have pursued adjustment programs in a consistent and sustained manner have shown positive results in terms of resurgence of growth. But it is equally clear that many structural reforms have yet to take place; consequently, economic recovery is still fragile and economic growth rates are still insufficient to make any dent in poverty alleviation.

The group of countries that instituted the most extensive macroeconomic reform policies between 1981-86 and 1987-91 enjoyed a median increase of GDP per capita growth of almost 2 percentage points. By contrast, countries that did not improve their policies saw their median GDP growth decline by 2.6 percent. A similar pattern is evident for export and industrial growth. As for agriculture, countries that taxed their major export crops less experienced a jump of 2 percentage points in the growth of total agricultural value added, while countries that penalized their farmers more saw agricultural growth rates fall by 1.6 percentage points (Chart III).

To the extent that macroeconomic policies matter—and they do—getting the exchange rate right is one of the top priorities for short-term growth. Countries that significantly reduced the black market premium (by devaluing) and adopted realistic macroeconomics policies enjoyed the biggest payoffs (e.g. Ghana, Nigeria, and Tanzania). Countries that brought about a real depreciation of 40 percent or more between 1981-86 and 1987-91—all of them with flexible exchange rates—had a median increase in GDP per capita growth of 2.3 percentage points (e.g., The Gambia, Mauritania, and Sierra Leone). Countries that had appreciations—all of them with fixed exchange rates—suffered a median decline of 1.7 percentage points (e.g. Cameroon, Cote d'Ivoire, and Gabon) (Chart IV).

There were payoffs not only to improving policies, but also to maintaining good policies. Countries assessed as having adequate or fair macroeconomic policies had a median rate of GDP per capita growth of 0.4 percent a year during 1987-91—low, but at least positive. By contrast, in countries ranked as having poor or very poor macroeconomic policies, median GDP per capita growth fell by 2.1 percentage points a year on average (Chart V).

Chart III. Median Changes in Average Annual Growth Rates of Adjusting African Countries, 1981-86 to 1987-91

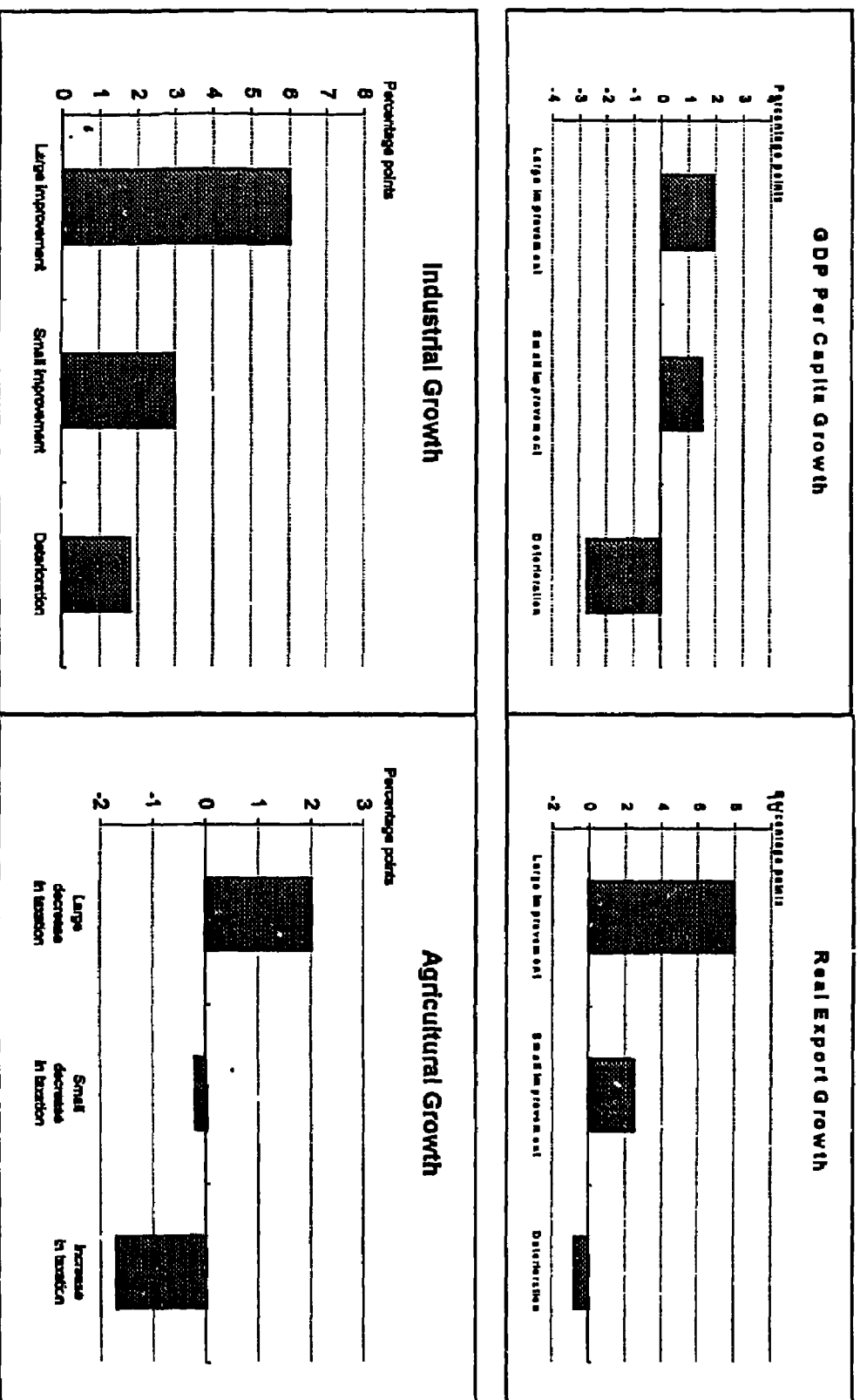


CHART IV: Economic Performance of Fixed and Flexible Exchange Rate Economies

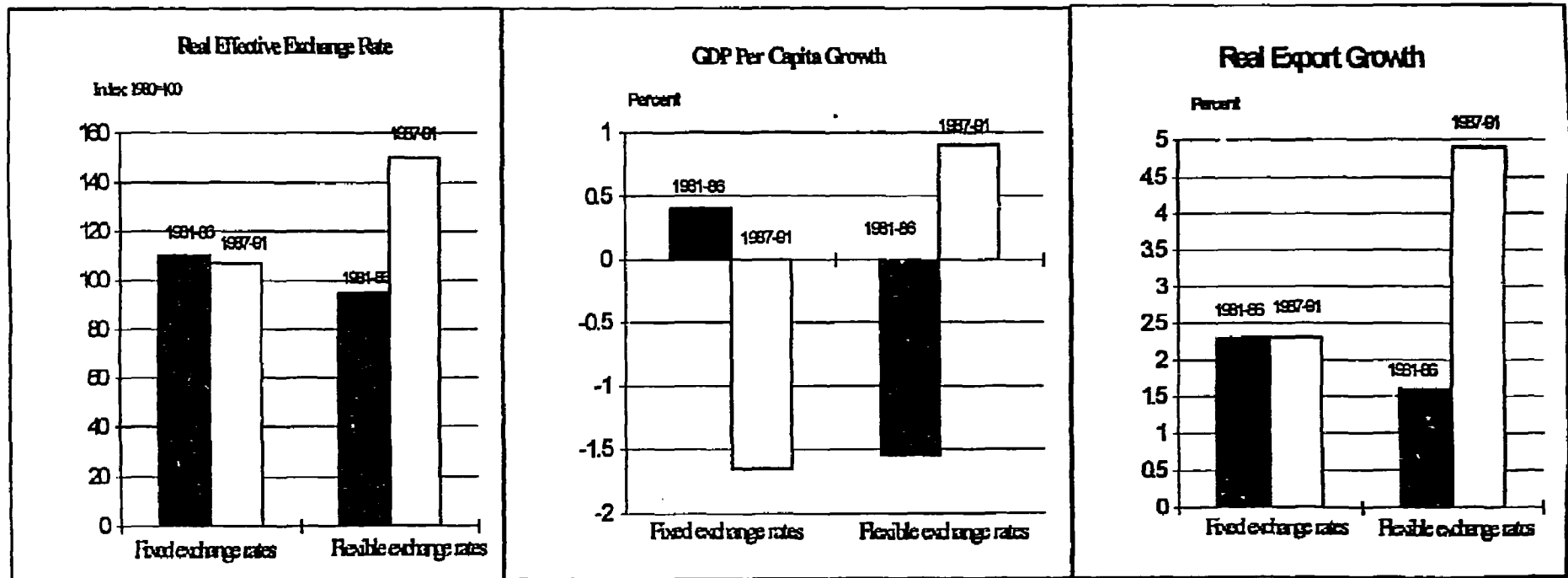
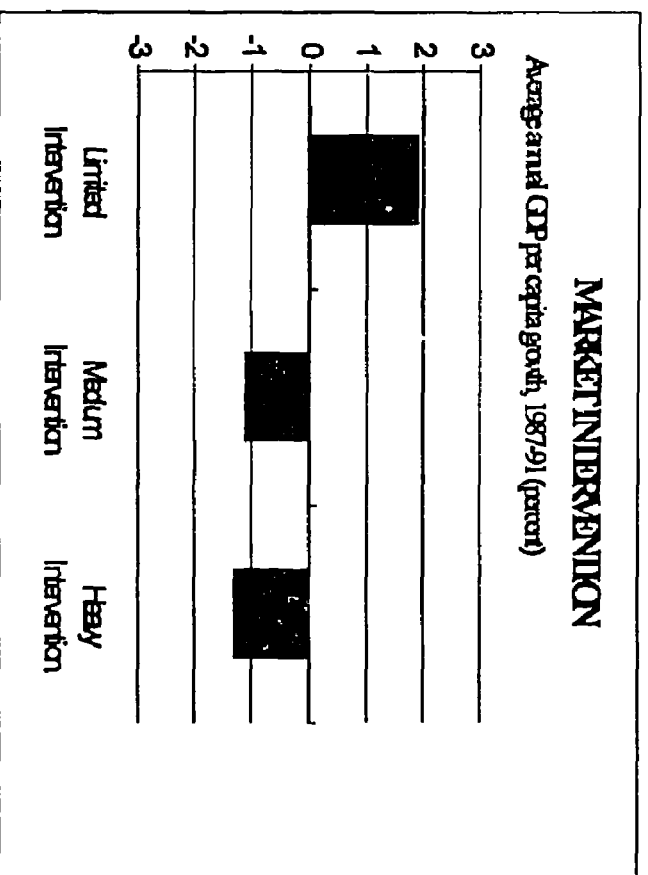
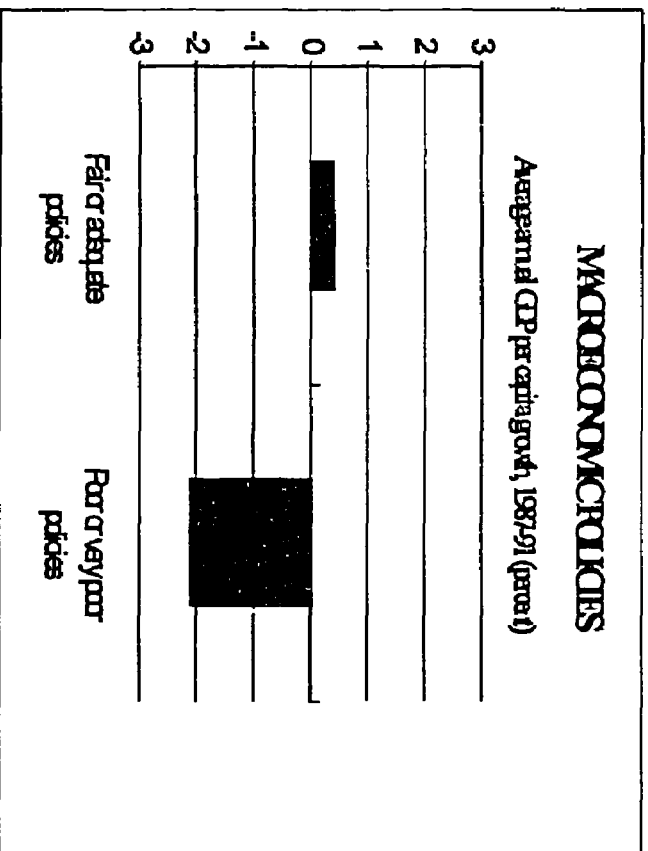


Chart V: Policy Stance and GDP per Capita Growth



The extent of government intervention in markets also made a difference in growth. Countries with limited intervention had median GDP per capita growth of almost 2 percent during 1987-91, compared with declines of more than 1 percent for the countries that intervened more extensively (Chart V).

These countries' economic policies have continued to evolve, of course, since the study was completed. The recent devaluation in the CFA franc zone countries provides a unique opportunity for a rapid and noticeable rebound in growth. Success, however, largely depends on whether (1) the devaluation is accompanied by supporting fiscal and credit policies to ensure that it is not eroded by large increases in domestic prices, and (2) the benefits of the higher prices for tradable goods are passed along to agriculture producers, so that exports can become a dynamic factor and energize growth. Other countries have also taken steps to improve their macroeconomic policies since 1991, notably Mauritania, Mozambique, Sierra Leone, Uganda, and Zambia. But policies have worsened in Burundi and Nigeria, while Kenya has exhibited both backsliding and improvement.

The above results represent the average or median tendencies of a large and heterogeneous group of SSA countries. The case studies of seven countries were used to explore, in depth, five questions that are raised most frequently in connection with adjustment programs.

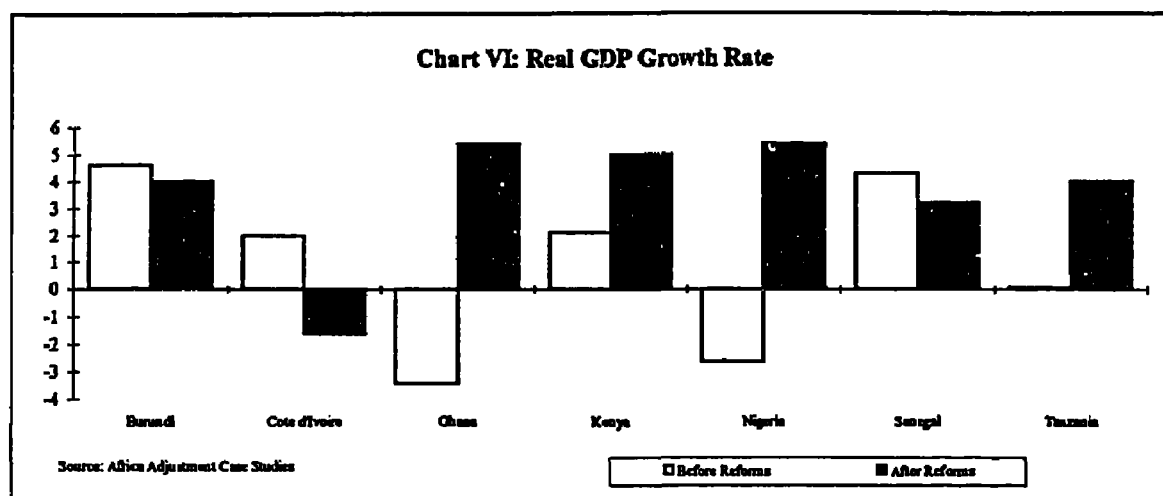
How far have these countries come in reforming their policies and what pay-offs have they earned by implementing these reforms? To assess the extent of reform, and the associated outcomes, the study looked at the five questions that are raised most frequently in connection with adjustment programs: *Has growth been adequate? Has the supply response been strong? Do investment-to-GDP ratios show improvement? What role has been played by external financial flows? And, have adjustment policies hurt the poor?*

Higher Growth

All the countries studied, except for Cote d'Ivoire, experienced positive per capita GDP growth during the adjustment period 1986-91. The average growth rate of the six countries over the adjustment period was 4.5 percent a year—strong improvement compared to an average growth rate of 1 percent in the preceding period (Chart VI).

Burundi and Kenya, which had fairly good initial conditions, maintained their previous growth rates. The biggest turnarounds during 1986-91 were registered in Nigeria, Ghana, and Tanzania, at 8.8 and 4 percentage points respectively. Even Senegal registered a small turnaround in growth despite the handicap of an overvalued exchange rate. Cote d'Ivoire, which once had an impressive growth rate, could not revert to its pre-crisis rate primarily because of its exchange rate problems. A large devaluation of the CFA franc took place in January 1994, removing one of the principal obstacles to the full interplay of policy instruments required for adjustment in CFA franc zone countries. It is hoped that Cote d'Ivoire and Senegal, which have

been adversely affected by the overvaluation of the CFA franc since 1985, will enter into a new period of adjustment.



Supply Response

The most important contributor to domestic supply and output in the region is the agricultural sector, followed by the export sector, which relies heavily on the agricultural commodities, mining and petroleum.

Agricultural Sector. All seven countries showed significant output increases—a trend corroborated by evidence on prices, food imports, and food production. The index of per capita food production rose in almost all countries (see Chart VII) except Tanzania, where the data are inconsistent—food imports and food prices both show a decline. In Burundi, per capita food production seems to have stagnated, but at least kept pace with the population growth rate during the 1980s. Food prices in real terms declined in Nigeria. Average food imports declined by 30 percent to 60 percent in Burundi, Kenya, Nigeria, and Tanzania, and remained the same in Cote d'Ivoire, Ghana and Senegal.

The volume of cash crop exports grew rapidly in Burundi, Ghana, Nigeria, Senegal, and Tanzania - but declined in Cote d'Ivoire. New non-traditional agricultural exports have emerged in almost every country in this group, although the amounts are still modest.

Export sector. Another good indicator of the supply response is the behavior of total exports. The most consistent finding that emerges from this study (which is corroborated by other studies) is that export growth has been remarkably high despite declines in terms of trade; exports have not only recovered from the crisis period but have also surpassed their pre-crisis level (see Chart VIII).

The country case studies also investigated whether there was any diversification in exports from traditional commodities. Oil still dominates Nigerian exports, and even the anecdotal

evidence on Nigerian unofficial exports of manufactured goods to neighboring countries is fragmentary, preventing any definite conclusion. But unlike the early 1980s, Nigerian goods are now competing with other imports in the West African markets. Despite a sharp fall in cocoa prices in the world market, Ghana has more than doubled its exports in the past seven years, with gold exports replacing cocoa as the number one export. Today, at least 20 percent of Ghana's export earnings come from products other than cocoa, gold, and timber, compared with 8 percent a decade ago. Tanzania shows the largest documented rise in non-traditional exports; its unrecorded exports are estimated at about \$400-500 million a year. Cote d'Ivoire, Kenya, and Senegal have export bases that are among the most diversified in Africa, but changes during adjustment have been minor and show no persistent trend. Burundi is the only country among the seven to show continuing heavy reliance on coffee; its present diversification efforts, have been negligible.

Chart VII: Food Production Per Capita (index average 1979-81=100)

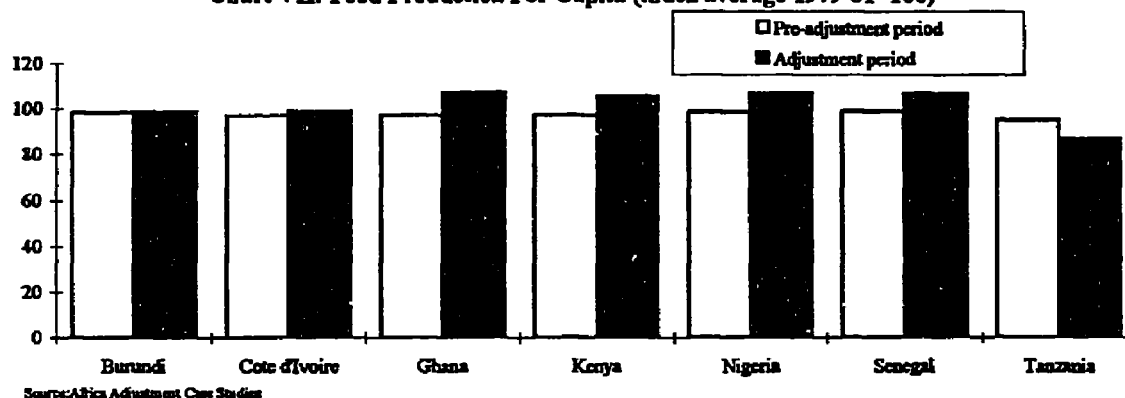
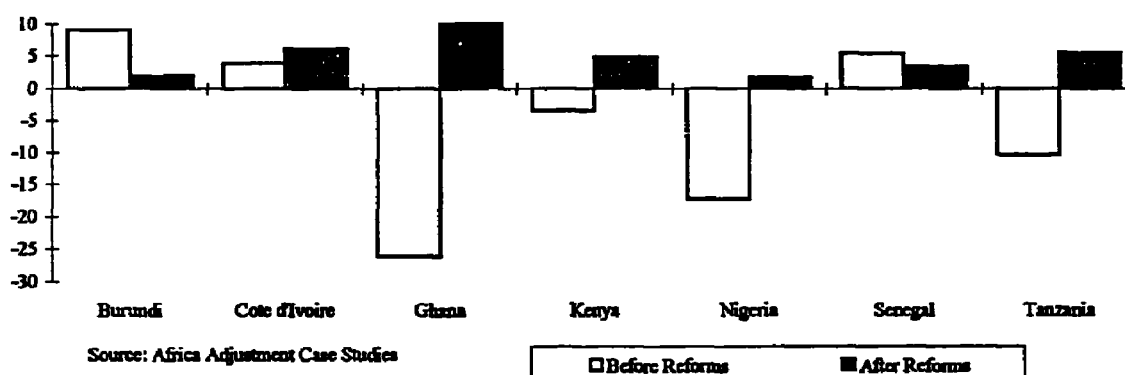
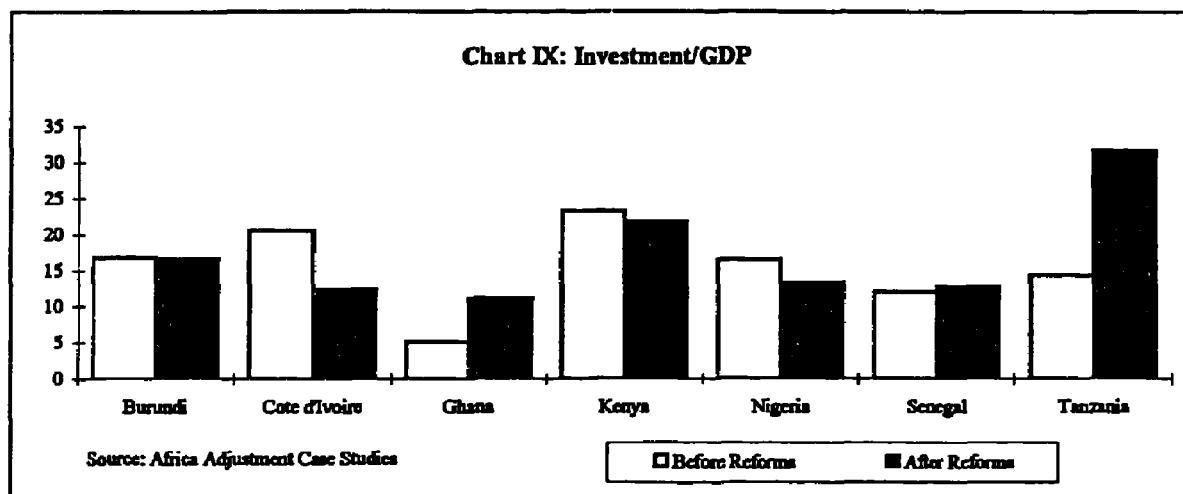


Chart VIII: Export Growth Rate (Volume)



Investment Responds Slowly

Despite increased inflows of foreign savings, public investment has fallen in relation to GDP in all seven countries, recovering to pre-crisis levels only in Tanzania (see Chart IX). In the short run, the slowdown in public investment—in an attempt to reduce budget deficits and to cut uneconomic projects—without a compensating rise in private



investment, would result in depressing overall investment ratios. The conditions needed to encourage private investors have generally been lacking so this slow response is understandable.

The relatively low investment rate is not a major obstacle to restoring growth in the short term as long as the efficiency of investment compensates for the low levels. After all, despite much higher pre-crisis investment rates, these countries did not grow faster because of the poor quality of the investments. "White elephant" projects, inflated contracts, flight capital, and other associated ills became rampant before—and eventually contributed to—the crisis in each case. A major aim of adjustment programs, therefore, has been to weed out these undesirable investments (particularly in the public sector) and to improve overall efficiency. Indeed, roughly similar investment ratios generated 1 percentage point of annual growth in the crisis period but close to 5 percentage points in the adjustment period.

A crucial issue is how long it will be before private investment will pick up the slack caused by this slowdown in public investment. The evidence so far is not reassuring. Domestic investors have been deterred in the short run by changes taking place as a result of restrictive monetary policies, high interest rates, devaluations—which increase the cost of imported inputs—and trade liberalization. Foreign investors appear yet to be convinced that African economies offer good investment prospects. The country studies confirm the vital importance of the stability, continuity, and credibility of policies for providing the appropriate signals to domestic and foreign investors. Of the seven countries, Ghana and—until recently—Kenya came closest to

meeting this objective, but could have achieved more. If the Ghanaian authorities' general attitude toward the private sector in the past had been less ambivalent, Ghana, no doubt would have seen a greater revival of private investment. In Kenya, the lack of transparent policies and the general perception of poor governance discouraged potential investors, even though Kenya had a more stable economic environment than other countries in this sample.

External Flows

The three main mechanisms through which the external economic environment affects African countries are: (1) the terms of trade, (2) the debt-servicing burden, and (3) external resource transfers.

Six of the seven countries studied had a decline in the terms of trade during the adjustment period--both in absolute terms but also relative to the pre-adjustment period. How far was this decline in external income offset by net external transfers--aid flows, debt-servicing relief, and accumulation of arrears--during the period of adjustment relative to the earlier period? Tanzania was by far the largest beneficiary of positive net external transfers that not only wiped out the terms of trade losses but resulted in a significant increase in net external flows. Burundi, Ghana, and Kenya were able to neutralize the terms of trade losses and had some modest overall gain. Nigeria suffered the most through terms of trade losses compounded by net negative transfers. Cote d'Ivoire and Senegal also incurred net declines in external flows.

The central question is how much of the renewed growth of the adjusting countries can be ascribed to external factors--aid and terms of trade changes--and how much to policy reform. The case studies reached the following conclusions:

- Nigeria has done much better despite terms of trade losses and net negative flows of external resources. Since net resource transfers from Nigeria to its external creditors equaled about 5 percent of its GDP every year, its growth could have been even higher if it were not so heavily burdened with debt.
- Cote d'Ivoire has been hurt by terms of trade losses and a relative decline in external flows, as well as by poor policies. Cote d'Ivoire is also severely indebted but has avoided a cash flow crunch by not paying all its creditors and by accumulating arrears. It is hoped that this situation will change because of the 1994 devaluation of the CFA franc and there accompanying measures.
- Burundi, Ghana, and Kenya--until recently--and Senegal, are among a select group of African countries that are fully servicing their debt--all four have been hurt by terms of trade losses. The gross flows appear large in each one of these but when they are adjusted for the debt service paid and terms of trade losses, the "net external resource availability" indicator does not appear large. Kenya's growth record reflects some positive impact of adjustment. Clearly, Ghana's growth turnaround was due far more to better policies than to the other changes.

- Tanzania's growth can be attributed to factors other than aid. Generally perceived as highly dependent on external donors, Tanzania has received very large sums of aid historically. But once debt-servicing and terms of trade losses are accounted for, the real external resource flows to Tanzania during its adjustment are no different in absolute terms from those during its crisis. However, this high level of external assistance is clearly not sustainable in the long run. Tanzania has to mobilize a larger volume of domestic savings through improved management of public finances and financial intermediation. External resources can fill in the gaps temporarily, and then only to a limited extent.

Adjustment and the Poor

While the early generation of adjustment programs might not have explicitly addressed the consequences of reform on the poor, the subsequent awareness of these issues has changed the approach of adjustment efforts. An important finding of the study is that adjustment has generally improved the welfare of the rural poor while most likely hurting the urban poor. More disturbing, however, is the fact that the growth attained thus far as a result of adjustment policies is still not enough to reduce the incidence of poverty. Unless growth rates are accelerated to an annual average of 6-7 percent, the prospects for poverty alleviation in Africa are likely to remain dim.

Rural poor. In all seven countries, the majority of the poor who live in the rural areas, are smallholders and self-employed, and derive their incomes from producing and marketing both food and export crops. Because six of the countries (Cote d'Ivoire in the second half of the 1980s is an exception) had an improvement in the rural terms of trade—as a result of devaluation, liberalized marketing, higher producer prices, and lower taxes—the rural poor appear to have benefited from real income gains over an extended period. Export crop and particularly non-traditional export crop producers, have gained more than other agricultural producers. Real food prices to farmers have declined in many countries, but the marketed output has increased, replacing food imports in many cases. The real income gains to food producers have varied. Those in Ghana, Nigeria and Tanzania seem to have benefited the most. Burundi and Kenya have been self-sufficient in food, and, therefore, the food crop farmers there have not gained much. The situation in Cote d'Ivoire and Senegal is still unclear.

Urban poor. The impact on the urban poor has been mixed. In Ghana and Tanzania, the urban poor have been better off after adjustment as consumer goods have become available, real food prices have declined, and informal sector activities have expanded. To the extent that the urban poor were buying their essential goods (including food) on the black market before adjustment, there has been no change in the welfare of this group.

In Cote d'Ivoire and Senegal the urban poor were worse off. This would also seem to be the case for the unemployed, fixed-income earners, and minimum wage earners in Nigeria. Because there are no data on Burundi and Kenya, it is unclear whether the real incomes of the urban poor in those countries have worsened or improved.

More recent empirical measures of poverty incidence in Kenya, Tanzania, Cote d'Ivoire and Ghana shed some light on the impact of economic reforms on poverty reduction. In the case

of Cote d'Ivoire, household data from the Living Standards Surveys show that the proportion of households living below the poverty line increased from 30 percent in 1985 to 46 percent in 1988, a period in which adjustment effort was abandoned and per capita incomes declined by 12 percent. A decomposition analysis separating the growth component from the distribution component, showed that the declines in GNP during this period were the most important determinants of poverty in Cote d'Ivoire. If mean household expenditure had remained constant during 1985-88, poverty would have fallen by 20 percent. But because GDP declined under an abandoned adjustment effort, the number of people living in extreme poverty increased by 57 percent.

A study⁸ comparing the 1983 (a year of economic crisis) and 1991 (a year of adjustment) Household Surveys for Tanzania found that growth had benefitted the population in general and had shifted a significant proportion of the population from below the poverty line to above the poverty line. The incidence of poverty declined to 41.8 percent in 1991 compared to 53.8 percent in 1983. The absolute number of people living below the poverty line also declined from 8.9 million to 8 million in the same period despite a population growth rate of 3 percent annually. Other studies carried out by independent researchers and aid agencies confirm the above finding.

In Kenya,⁹ the decade of the 80s saw no change in the incidence of poverty in rural areas and the percentage of the population under the absolute poverty line remained virtually constant at about 47 percent in 1981/82 and 1992. Overall, per capita real consumption expenditure in rural areas increased at 13 percent per year. However, the distribution of expenditures worsened with the gini coefficient increasing from 0.45 percent to 0.49 percent. Kenya at the outset of the 1980s already had more favorable social indicators than most countries in the region. Infant and child mortality rates continued to fall and there was further progress in life expectancy. Kenya had achieved nearly universal primary school enrollment by the early 80s, a situation experienced in the early 90s as well.

Ghana has completed surveys of the living standards for three different years during the period of adjustment.¹⁰ The results of these surveys show that at the national level, the average household welfare levels fell by 5.9 percent between 1987/88 and 1988/89 but increased by 10.9 percent between 1988/89 and 1991/92, the increase between the later period more than compensated for the earlier decline. The incidence of poverty therefore declined from 43 percent in 1987/88 to 40 percent in 1991/92. The depth of poverty, however, does not display such a strong trend and the magnitude of the decline is relatively small.

At a disaggregated level, average welfare has improved, and the incidence and depth of poverty have declined more significantly in the rural coastal, and rural forest and urban areas other than Accra. There is hardly any change in the measure of incidence in the rural savannah areas but the depth of poverty has declined slightly while the incidence of poverty has increased in the

⁸Ferreira, L. 1994 "Poverty and Inequality during Structural Adjustment in Rural Tanzania" World Bank, Policy Research Department. Transition Economics Division, Research Paper 8.

⁹Kenya: Poverty Assessment (World Bank, 1994, Draft)

¹⁰Ghana: Poverty Assessment (under preparation)

Accra area.

An interesting result of the Ghana study is that the incidence of poverty has declined during this four year period for both food and export farmers. The popular perception that it is only the export crop farmers who benefit from devaluation and agriculture price liberalization is not borne out by the empirical evidence of Ghana.

Lessons Learnt

Why have some countries among the adjusters been more successful than others facing identical circumstances and similar constraints? It would be foolhardy to make generalizations but there is sufficient accumulated evidence to suggest a few answers.

First, the "ownership" and "commitment" of the government and the population of the country to the program, including the willingness to sustain the policies in the face of pains and transitional costs, are positively related to the successful outcomes. Any amount of outside interference, coercing or coaxing by foreign donors and international financial institutions will not help in the absence of internal consensus. A number of countries have not fully committed themselves to reforms and have adopted a stop-and-go stance. This half-hearted and haphazard implementation of reforms, without having arrived at a broad internal consensus, is not likely to create any positive durable effects. Adjustment programs should be owned by the adopting government and not perceived to be imposed by outsiders. Adjustment programs usually involve up-front costs to many groups in society and the benefits usually take time to emerge. This complicates the tasks of many governments in securing a domestic constituency. But to be effective, reforms must be followed through and sustained despite the short-term transitional costs they impose upon some vocal segments of the society. Reversing or switching gears in mid-stream also reduces the credibility of subsequent adjustment efforts. The lack of credibility and continuity in government policies have been more harmful than if adjustment policies were not put in place in the first instance, as uncertainty among economic agents and investors paralyzes the initiation of new economic activity.

Second, achieving macroeconomic stability i.e. avoiding overvalued exchange rates, keeping inflation and budget deficits low is essential for reviving growth and attracting investment. Progress in maintaining realistic exchange rate has been satisfactory. But most countries in the region still need to cut budget deficits and indirect fiscal losses (those covered by the banking system) in order to lessen the need for inflationary financing or additional external financing. More needs to be done to increase savings. Eliminating large negative real interest rates is an important step; however, given the difficulty of obtaining rapid growth in private savings, raising public saving is the best option in the short run.

Third, adjustment policies, if effectively implemented, are a necessary but not sufficient condition for accelerated growth. Growth in Africa requires the same incentives for efficiency and productivity growth as elsewhere, though special support is required for the development of human resources and strengthening of institutions. The level and efficiency of investment and

changes in institutions and administrative capacity should improve substantially--either accompanying or closely following the policy changes. Equally true, investment projects will yield poor results if the policy climate is highly distorted. The interaction between an undistorted policy regime and successful investment projects is an important lesson. In countries where macroeconomic stability has been achieved, supply response will occur if investment levels are raised, composition of investment is rightly targeted and efficiency of investment is improved.

Fourth, discrimination against the agriculture sector is inimical to both growth and poverty alleviation. Although implicit and explicit taxation of farmers has been reduced in a large number of countries, the scope for continuing reforms in this sector is still large. Liberalizing pricing and marketing of export and food crops has not made headway in several countries. In many cases, there is no clear rationale for agricultural marketing parastatals, and they can be eliminated as barriers to private sector entry are removed. These reforms can help farmers reap the full benefit of the exchange rate depreciations, the additional earnings from which might otherwise be used to shore up the financial position of parastatals. The rising incomes in the rural sector can provide a durable basis for industrial growth.

Fifth, export promotion has not been given sufficient attention as yet. Countries should seek to remove unnecessary policy and administrative impediments that hinder export competition. Providing exporters with automatic access to imports and foreign exchange, eliminating export monopolies, and facilitating access to intermediate inputs and capital goods would reduce bias against exporters. Direct government promotion of particular exports or exporters is not indicated, given the difficulty of insulating technocratic decisions from political considerations.

Sixth, the enabling environment for private sector development is not yet in place in many adjusting countries. Preferential treatment for parastatals, labor market rigidities, regulatory barriers, financial sector inefficiencies and the hostile attitude of the governments towards private profit maximization have not changed significantly. The credibility and continuity of macroeconomic policies are seriously questioned and therefore do not provide much comfort to prospective investors.

Seventh, most important, protecting the poor in the transitional stages of reform process should be an explicit objective of adjustment program. Improvements in macroeconomic and agricultural sector policies in Sub-Saharan African countries should help to foster a more broadly based labor-intensive patterns of growth beneficial to the poor, the vast majority of whom live in the rural sector. However, reforms that have improved producer incentives have sometimes had negative consequences for those consumers who benefited from food subsidies and cheap imported foodstuffs. While evidence on the incidence of these subsidies is limited, indications are that subsidized foodstuffs were often highly rationed and did not extend to the poor, limiting the potentially negative impact of these reforms.

Eight, Africa needs debt stock reduction. As countries adopt better policies, the debt overhang is likely to deter private investment. Further, the debt-service burden threatens to eat away at increased export earnings and domestic savings that might otherwise be used in pursuit of

long-term development objectives. Even the proposed debt relief strategies under consideration would leave some countries with an unsustainable debt burden. Instead, the focus should be on reducing the stock of debt to sustainable levels for countries that are undertaking comprehensive and sustained policy reform programs, even if that means differences in treatment across countries.

Unresolved Issues

The progress made so far has been uneven and mixed but the future agenda is even more difficult due to the existence of several unresolved issues. There are a number of concerns that characterize the future course of adjustment programs, a number of trade-offs and difficult choices that need to be made by the governments, several tensions that need to be defused and, therefore, a whole host of challenges that have to be faced. There are, at least, four tough challenges that involve these trade-offs and choices.

The first and foremost challenge is whether the respective roles of the state and private sector are to be clearly defined and demarcated or left ambiguous as before. There is a need in depth how much adjustment has taken place and how successful it has been in African countries. This study—Africa Adjustment Study (AAS)—compares the policies and performance of 29 Sub-Saharan African countries during two periods: from 1981 to 1986, when most African countries were in economic crisis, and from 1987 to 1991, when these countries adopted structural adjustment programs. This study was supplemented by case studies of seven countries (Burundi, Cote d'Ivoire, Ghana, Kenya, Nigeria, Senegal, and Tanzania). The study finds that the commitment to guide resource allocation with administrative measures rather than leave it to market mechanisms is still much stronger and politically attractive, despite the evidence that the results of direct government allocations have been dismal in most African countries. As Jeffrey Herbst¹¹ argues, overvalued exchange rates, excessive state intervention and inefficient parastatal companies were not irrational "distortions" for those who intent on staying in power, only for the development of the population as a whole. Direct state intervention is used for resources to flow to constituencies important to the politicians' continued tenure in office. There is not much evidence, as yet, that this propensity has been checked or is on decline.

The recent debate about the causes of the success of the East Asian countries has renewed the call by a group of intellectuals and NGOs for greater government interventions in directing credit, subsidies, foreign exchange in promoting industrial development. The misery and failure this strategy has caused during the last twenty-five years does not seem to have sunk in. This tension between the direct role of the state and the indirect and supportive role in the allocation resources remains a thorny issue.

The second challenge, related to the first, is to develop better administrative and institutional capacity in order to deliver essential social services, maintain and operate infrastructure facilities, protect environment and alleviate poverty. A greater participation by the

¹¹Herbst, J., 1990, "Structural Reform and Debt in Africa", in R. O'Brien and I. Iverson (eds.), *Finance and the International Economy*: 3, Oxford University Press, Oxford.

other segments of the civil society will very much help in achieving this objective.

Civil service reform undertaken in several African countries for fiscal and budgetary reasons has not yet enhanced the productivity or efficiency of the civil service to discharge the important functions assigned to it. The dilemma facing the countries is how to trim the civil service while, at the same time, improving the incentives and motivation for them to perform better.

The third challenge is to resolve the tension between the fear of domination by ethnic minorities and the urge to attract new private investment for expanding the productive base, creating job opportunities and reducing dependence on external official aid. Other developing countries have successfully resolved this tension and Africa should be able to find some politically viable and economically feasible solutions.

In several non-African countries, the first thing that has been introduced is to remove the barriers for entry to new comers, enforce a hard budget constraint and create a level playing field for both private and public firms. But in Africa, implicit subsidies and differential privileges to public enterprises have been maintained to protect employment. A choice is to be made whether these enterprises should be restructured or shut down if they cannot compete with private firms in the same sector of activity. On the other hand, private firms will not become profitable, and, hence, not invest unless the preferred treatment to public enterprises ceases to exist.

Fourth, the quality of growth, i.e. broad-based equitable growth, will very much depend whether the governments are able to allocate scarce public resources increasingly to appease a small privileged group of population that benefit from the rent-seeking opportunities and contacts with the political and bureaucratic leadership, or redirect these resources to a much larger segment of the poor i.e., primary education, small and micro enterprises. The powerful lobby groups, such as university students or trade unions, who benefit from the existing pattern of allocation of government expenditures (stipends and subsidies to public enterprises), can, in fact, destabilize the governments if their perceived interests are hurt. On the other hand, the likely beneficiaries of the pro-poor expenditure pattern will emerge in the next generation and not in the present period.

Conclusions

Despite satisfactory performance on the part of several intensely adjusting countries, and particularly successful results in agriculture and food production, it must be conceded that the overall results of adjustment achieved so far have been modest relative to original expectations. Adjustment has not yet succeeded in raising the rate of growth to levels needed to make major inroads into poverty. Region-wide, economic recovery is still fragile, although there is a great deal of variation in outcomes. Currency depreciation and inflationary pressures have not yet been fully subdued in several countries due to persistence of underlying expansionary fiscal and monetary policies. Many countries still rely exclusively on external grants and concessional financing to close their fiscal gaps. Per capita consumption remains stagnant and private investment has not yet revived. Unemployment rates, particularly in urban areas, are still high and poverty is on the rise. When there is civil strife, adjustment has, of course, not worked.

There is a general consensus that consistent and unfettered implementation of adjustment policies and attainment of macroeconomic stability do improve the outlook for growth in these countries. However, the record of implementation is mixed and uneven in Africa. Adjustment is necessary even if it is bound to work slowly. But for it to work at all depends upon the strong commitment by the leadership of the countries to sustain reform policies in the face of adverse and harsh external circumstances and domestic political pressures.

What is less clear, and thus invokes a lot of controversy is the speed, timing and sequencing of various components of adjustment programs. As each reform has differential impact on the various segments of the population, creating winners and losers, the process of mediating among these conflicting claims is highly political. No technocratic solutions or quick fixes can be found to provide satisfactory solutions. No amount of external assistance can help in this process. Consensus building and open communication, consultations and debate among the various groups and reaching compromises will bring about the durable results. But in practice this path has proved difficult.

It is equally clear that adjustment policies, even when they are put in place after reaching internal consensus, will not be able, by themselves, to lift African countries out of poverty. The agenda of policy reforms should be considered as part of the broader long-term development strategy of each country. This strategy should aim at not only changes in policies, but also improve investment in human resources and physical infrastructure, accelerate opportunities for development of private sector, enhance the quality of governance, strengthen institutional capacity, and, most importantly, maintain national solidarity and social cohesion.

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